

COST *and* MANAGEMENT

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COST AND MANAGEMENT

Budget Control

What It Does and How To Do It

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THE Budget in Business is a plan for co-ordinating all forces and directing them toward the attainment of a definite objective. It estimates, in advance, the factors of time, volume and value necessary to produce a definite amount of sales and profit in a given period. It forecasts:

Production:

The quantities of each product to be made.
When to make.

Income:

The amount of income.
When it will be realized in cash.

Expenditures:

The amount for material, labor, supplies, expense and equipment.
When it will be paid out in cash.

Financing:

The amount of financing necessary.
When it must be provided for.
When it can be liquidated.

Profit:

The amount of profit.
When it will be realized.

Financial Position:

Balance Sheet figures which, projected into the future, will give effect to the operations of the business as estimated in the budget.

A well-planned and ably directed budget benefits business in many ways:

1. It is a marked influence in the most economical use of working capital, since it is planned to utilizing plant facilities and current assets to the maximum of their potentiality.
2. It prevents waste, since it regulates the spending of money for a definite purpose and in accordance with appropriations established by the executives of the business.
3. It places definitely—just where it belongs—the responsibility for each function of the business.
4. It makes for co-ordination. It compels all departments of a business to co-operate in attaining the results fixed by the budget.
5. It enhances the power of loyalty in an organization, since it stimulates and helps each individual to put more of his brain into the enterprise to which has given his time.

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6. It presents in cold figures the best judgment of executives committed to a definite business objective, and thus guards against undue optimism which often leads to over-expansion.
7. It acts as a safety signal for management, since it indicates the variance between its estimated and the actual results obtained from period to period or from month to month. Thus, it shows when to proceed cautiously as well as when manufacturing or merchandising expansion may be safely undertaken. It is an automatic check on the judgment of the executives—a check frequently revealing losses in time to stop the waste.
8. It is the most potent force in business for the conservation of the resources of business, since it regulates the spending of money within the confines of income.
9. It is invaluable to management in determining the effect of sales, production and financial policies.
10. It provides incentive and suggests opportunities for organized research, controls the expenditures and aids management in gauging the results.
11. It compels management to study its markets, products, methods and service for ways and means of strengthening and enlarging the business.
12. It compels management to study and to plan for the most economical use of labor, material and expense.
13. It is the *only means* for predetermining when and to what extent financing will be necessary.
14. It makes business more interesting to management. It sets up a target to shoot at and provides a gauge for measuring the accuracy of the shots. It is a test of the ability of management *to make things happen* in accordance with a well-ordered plan.
15. Managements that have developed a well-ordered budget plan, and operate accordingly, find greater favor from their bankers, boards of directors, and stockholders.
16. It compels management to fortify itself with adequate accounting, cost accounting and financial records.

The budget in business, therefore, is the greatest contribution towards the attainment of success. *It is not a substitute for management but rather a means to an end.*

To buy and to pay for, to manufacture, to sell and collect for—these are the important and essential considerations in the average commercial or industrial enterprise. To accomplish them, that the maximum of profit on a minimum of capital may be realized, is the object of all intelligent business effort.

Business effort is intelligently directed only when it is founded on a well-ordered plan. A mark must be set, a course charted and the ultimate object kept constantly in mind. Even with a course

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carefully charted, it is necessary to make frequent soundings and checkings, to see that no detail is overlooked and that advantage is taken of every favorable condition.

The business builder plans for profits. Management then must think of business in terms of profit. The life of all business is profit. Success depends upon it. It is the compelling interest in the simplest business transaction. It is the dominant thought in the greatest commercial enterprise.

Profit means progress and success.

Loss is retrogression.

Real profit begins where loss ceases.

The elimination of loss is as necessary to successful business as profit itself. The saving made through the prevention of mistakes, inefficiency and waste, is *profit*, just as the difference between cost and selling price is profit.

To avoid waste in business, it is necessary to know where and when the leaks are. To find the leaks there must be some effective means for detecting them, and of knowing their importance when they are found. Leaks and waste drain the resources of business concerns. Tradition and habit are too often the guiding influences. Past expenditures are not a safe basis for the future. Actual necessity, regardless of tradition, is the real test. And these questions should be satisfactorily answered:

Will the expenditure if made yield a return?

Is the expense incurred at the right time and in the proper proportion?

The extent to which budgeting can be made effective will be limited wholly by the facilities of the budgetor. But budgeting can be undertaken by degrees, according to the facilities available, and enlarged from time to time as facilities and data are established for the purpose, the ultimate aim, wherever practical, being a budget to cover all operations of the business in detail. An important feature of the benefit to be derived from budget control consists in many small economies, and their accumulation becomes greatest through having the rank and file of the organization observe the detail under the budget in its complete form. Quoting Benjamin Franklin, "Human felicity is produced not so much by great pieces of good fortune that seldom happen, as by little advantages that occur every day."

Every business can be budgeted to some extent and to real advantage—the seasons, weather, crops, or other conditions notwithstanding. No intelligent business man will admit that there is a basis wanting or experience lacking, or that the prospects are so much in doubt as to make it utterly impossible to hazard an estimate on what could be reasonably expected in a future period.

It is important to keep in mind that budgeting is effective to the extent that the budgetor has developed the means, and has available the fundamental data, for building the budget.

BUDGET CONTROL

THE MASTER BUDGET

In the preparation of the Master Budget, five elemental calculations are required, as follows:

Sales Budget.

Production and Purchase Budget.

Expense Budget.

Plant Addition and Plant Change Budget.

Cash Budget.

All of these are preliminary essentials to the making of the master budget.

Sales Budget

The sales budget is an estimate of the sales for the budget period and is usually determined by the sales manager and approved by the general management. The estimate is based on a reasonable expectancy—trade conditions and experience carefully considered.

Assume that, over a period of the last three years, a company shows a progressive increase in sales of 10% each year. Future trade conditions are good. There has been a favorable election. Crops are good and prices up. Trade with foreign countries is increasing. And, for other good and sufficient reasons, it seems quite possible to look forward to an increase in sales for 1929 at 15% over 1928. We should proceed to use 15% as the basis. As this estimate is made, quarterly, semi-annually or annually, as the case may be, the forward booking of sales contracts is in itself a good guide as to the reasonable expectancy for future increases or decreases in the volume of sales.

YEAR	INCREASE	SALES
1926		\$1,000,000.00
1927	10%	1,100,000.00
1928	10%	1,210,000.00
1929	15%	1,400,000.00

Having arrived at \$1,400,000 as the reasonable expectancy in sales, we proceed to determine what the sales will comprise, and in what months they will be realized. In obtaining this information, it will be necessary to make an analysis of sales by months, for at least one year, according to departments, lines, commodities or articles. It is desirable to have this analysis over a period of several years toward making note of any change in the trend of sales, or tendency of the trade to buy increasingly more of certain lines and diminishingly less of others. These trends must necessarily be reflected in the estimates for future sales; and they can only be considered when they are a known quantity. *The only way to know is to analyze.* A thoughtful review and consideration of these important factors often in itself leads to greater efficiency within an organization.

Budgeting calls for a survey of the entire selling problem. Consumer markets should be studied and standards of performance set for each salesman or territory according to lines or articles in the light of the potentialities of the territory. The past performance of each salesman, or in each territory, should be analyzed according to lines or articles and compared with the accomplishment in other territories on the basis of relative opportunities and with a view to

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improvement. Study should also be given to cancellations and returned merchandise. The sales income for the preceding year should be considered, and for the coming year estimated, in relation to the selling and advertising expense applicable to each line or article and to each territory.

In the case of an automobile company, the determination of the sales estimates would rest on the total number of each model that they could reasonably expect to sell based on a 15% increase in the sales. Consideration would also be given to the trend of sales according to models.

Assume that cars were sold in 1927 and 1928 in the following proportions:

	1927	1928
<i>Sedans</i>	30 %	35 %
<i>Coupes</i>	30	30
<i>Roadsters</i>	15	15
<i>Touring</i>	25	20
	100 %	100 %

It would be necessary to give effect in the 1929 budget to an increase in sales of 15% in sedans; and an increase in trend in that model from a 30% to a 35% ratio to total sales of all cars. In the case of touring cars, an increase of 15%, but reduced to the extent that the trend is diminishing toward that model. An analysis of the dealer sales by months would furnish the basis for predetermining what provision should be made in production to meet the monthly and quarterly budget estimate for sales requirements of each model.

In the case of a manufacturer of underwear, we should determine the number of dozens in the spring and the fall lines—how many dozens were represented in original orders in each line and the dozens represented in the reorders, these figures based on actual shipments. We would then analyze each line to determine the quantity of each style (union suits, shirts and drawers, etc.), stock numbers and fabrics (such as cotton, mercerized, wool and various combinations) according to shipping dates.

In the case of a manufacturer of stoves and furnaces we should determine the number of the different types or sizes of furnaces, hot water heaters, coal ranges and gas ranges sold, according to shipping dates.

In a manufacturer of stoves (as a jobber along with the lines of his own manufacture) sold certain oil stoves which were the product of another manufacturer, such sales would be analyzed in the same way as the sales of his own goods, but would be considered separately from the standpoint of the production budget.

Manufacturers of stoves, furnaces, washing machines, machine tools, automobiles, trucks, steam shovels, equipment, etc., have constant demand made upon them for repair parts and special fixtures. It is the usual custom to maintain "repair parts" or "service stocks" particularly for this purpose, including in such stocks obsolete parts, or parts that are not used in current models but frequently called for.

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These stocks must be kept up to meet the emergency demand which requires prompt service. Therefore, in setting up the "service department," it is necessary to give due consideration to its requirements and to the fact that replenishment of inventory must follow closely upon the sales.

In arriving at the estimated volume of sales dollars, it is necessary to take into consideration any contemplated change in prices or change in policy involving quantity discounts, etc.

Any enlargement of sales territory, or additional branches, or more intensive sales activity in present territory, or any special advertising campaign, should be given due consideration in the estimating of sales for the budget.

Analysis of sales according to commodities or articles will appear to many as a vast amount of detail; but the necessity for such detail will be apparent when steps are taken to prepare the production budget which depends upon a predetermined manufacturing schedule of definite quantities of articles at stated times.

If a budget is to be effective, it must be a co-ordinated budget. The production department must provide definite quantities of certain articles at stated times to meet the estimated sales requirements, and sales and production must work together with a view to attaining the results indicated by the budget.

Sales orders precede shipments; and the trend of incoming orders, as compared with previous periods, will indicate to what extent the sales budget will be attained. If orders vary from the quota set for the budget, it will be necessary to revise the budget for sales and also reflect the change in the factory production, purchasing, expense and cash budgets.

Budgeting in a retail or wholesale business presents problems different from those in a manufacturing business. The same elements enter into both, except that in merchandising, purchasing bears an emphasis which in manufacturing attaches to production. The larger and more progressive retail establishments have maintained merchandise control systems for many years; therefore, the budget is not a new departure for the retailer. The Ernst & Ernst Retail Inventory Method lends itself ideally to all requirements of a budget system. The retailer fixes buying limits based on the "beginning inventory" and the "planned sales" for the period. He permits of increases in purchase allowance only to the extent that increases are realized over the planned sales.

It is necessary to keep constantly in mind that the sales budget is the key to the whole plan; that all efforts and budgets must be co-ordinated with it. The whole budget plan falls down when there is a lack of co-ordinated effort in any department. Once the budget is established, it *must* be the guide for all departments. The practical result of a budget during the early period of operation, is the accurate check in each department which it affords the management, and the opportunity that it gives to study more closely the operations of any departments not producing the results anticipated when the budget was planned.

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EXHIBIT "A"

Estimate of Cash Income from Operations and Other Income

YEAR 1929

		Collections Less 1.75 %	Other Income	Total Cash
Accounts Receivable				
Jan. 1, 1929	\$54,000.00			
SALES				
January	60,000.00	\$53,055.00	\$4,000.00	\$57,055.00
February	50,000.00	57,967.50	2,200.00	60,167.50
March	40,000.00	49,125.00	2,200.00	51,325.00
April	60,000.00	42,247.50	4,000.00	46,247.50
May	100,000.00	60,915.00	2,200.00	63,115.00
June	200,000.00	104,145.00	2,200.00	106,345.00
July	250,000.00	191,587.50	4,000.00	195,587.50
August	250,000.00	240,712.50	2,200.00	242,912.50
September	150,000.00	235,800.00	2,200.00	238,000.00
October	100,000.00	152,287.50	4,000.00	156,287.50
November	80,000.00	101,197.50	2,200.00	103,397.50
December	60,000.00	78,600.00	2,200.00	80,800.00
TOTAL	\$1,454,000.00	\$1,367,640.00	\$33,600.00	\$1,401,240.00
Discount @ 1.75 %		24,360.00		
Total Accounts Paid	1,392,000.00			
Accounts Receivable				
—January 1, 1930	\$62,000.00			

In the retail and wholesale merchandising businesses, we proceed on the theory that "*we buy to sell*" and so go about to build the budget. The sales for the period are estimated in the light of experience and trade conditions.

The merchant is coming more and more to appreciate the fact that profit is derived more as a result of adequate turnover than from mark up or as a reflection of low selling expense ratios. He has, therefore, given more attention of late to an analysis of inventories and an analysis of his sales in order that he may know the effect of his merchandising policy on his turnover. He determines for each department the amount of stock essential to carry to meet varying volume in sales. For each line he determines the particular articles which contribute to the turnover in the department. He analyzes to determine the turnover in the hosiery department of 50c, 75c, \$1.00, \$2.00 price lines—and so on through other merchandising departments.

The purchase commitments of the merchant for a given period are predicated on the desired turnover and the expected sales. In order to accomplish sales of \$50,000.00 per month is a given depart-

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ment, it may be necessary to maintain an average stock of \$125,000.00. The purchase allowance is fixed accordingly, and subsequent additions to and deductions from this allowance are based on the realized sales.

In retail and wholesale merchandising, it is possible to regulate from day to day the *application* of the buying allowance. In most progressive stores this is now done under a system of unit stock control.

The expectancy of cash from sales is based on the estimated monthly sales as indicated by experience and the turnover of accounts receivable. This turnover may be determined by an analysis of the returns over a period of a few years. In the case of installment accounts receivable, it is necessary to give careful consideration to the loss involved in returns, defaults and bad accounts.

Exhibit "A" illustrates an estimate of cash to be received on account of sales and other income by months. The cash proceeds are shown in a net amount after providing for an average discount allowance of 1.75%.

The cash realization from sales as set forth in this exhibit is based on experience in collections assumed as a 10% collection in the month the sales are made, 80% the following month, and 10% within 60 days.

The balance of accounts receivable at December 31, 1929, based on the foregoing statement, will amount to \$62,000.00 before any deduction for discount or allowance for doubtful accounts.

Production and Purchase Budget

The production and purchase budget is planned to meet the demands of sales as prescribed by the sales budget.

The production department predicates its manufacturing operations wholly on the sales budget, since it will be required to have available the articles in sufficient quantities at the proper time to make delivery in accordance with the sales delivery dates.

The production department should have available, inventory records on finished stock which will indicate the quantity it has on hand to begin with. Taking into consideration the quantity it will be required to deliver against sales, and also considering the quantity it is safe to have in the ending inventory, the quantity that must be made is determined.

Assume that the beginning inventory indicates 50 finished articles on hand, the sales budget calls for 250, and the management desires to close the period with 20 in stock, the production department would plan to make 220. $20 \text{ plus } 250 \text{ minus } 50 = 220$.

In accomplishing the production called for by the sales budget, the production department must take into consideration the available equipment, and, if possible, provide for a steady flow of production through the plant over the entire period. The production department must give consideration to the steady employment of labor and most economical use of all its mechanical and human factors that are essential to production. Therefore, this department cannot always produce, each month, strictly in accordance with the deliveries as in-

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dictated by the sales budget. It must, however, subscribe to efficient manufacturing practises. It may be necessary to manufacture at one time, and considerably in advance of the time when needed, all of the quantity of a given product called for in the sales budget.

In many industries embracing such standard lines, as pharmaceuticals, shelf hardware, small tools and the like, it is customary to establish a minimum quantity for finished stock of each article. When this minimum is reached, the production department proceeds to manufacture a standard lot to replenish the stock. The minimum quantity is predicated upon the normal outgo for sales and the length of time necessary to re-establish the stock, plus a small margin of safety.

Naturally the purchase requirements, and the purchase commitments, follow the production line; and the purchasing department, in co-operation with the production department, co-ordinates purchasing with the manufacturing schedule.

Stock records indicate the available quantities of raw materials. When these materials are considered in the light of the quantities scheduled for manufacture into finished stock, it is quite easy to determine the quantities of raw materials that it will be necessary to purchase to conform to the manufacturing schedule.

It is the responsibility of the purchasing department to buy raw materials, which must be available when needed to initiate production. The purchasing department with its knowledge of the quantities of materials required and the dates they must be available, and knowing unit prices, is in a position to submit its estimate of the cost of materials required for the period and to further interpret these values in terms of date of payment for the purpose of the cash budget.

In planning production and purchases consideration must be given to the closing inventories desired by the management at the end of the fiscal year. If the management wants its closing inventories to show a reduction from its beginning inventories, production and purchasing must be conducted with that in mind.

It is the function of the cost department to estimate the amount of direct-labor expenditure necessary for the manufacturing schedule. The direct-labor estimate should indicate amount of direct day-work and piece-work labor necessary to the manufacture of each article, and tabulate such data, if possible, by departments.

If it will be necessary to pay bonus or premium for overtime, this should be calculated and included in the schedule of manufacturing expenses under the classification of indirect labor, not as direct labor.

The sales budget is the guide to the production department in the preparation of its production schedules planned in advance to regulate the manufacturing operations from day to day, week to week and month to month. The manufacturing schedule in turn becomes the basis for determining the materials which will be consumed and the direct labor required from month to month and which must be provided in the usual manner.

In the practical operation of this section of the budget, it is customary to prepare separate production schedules for each month. Exhibit "B" illustrates such a schedule.

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EXHIBIT "B" Production Schedule

Month of.....1929.....Department

Article or Model No.	Units to Make	Material		Direct Labor		Analysis of Materials		
		Unit B-M	Amount	Unit Cost	Amount	X	Y	Z
A								
B								
C								
D								
E								
F								
G								
H								

TOTALS

Supplies Estimated

Repairs

INDIRECT LABOR ESTIMATED

Foremen

Assistant Foremen

Truckers

Oilers and Beltmen

Repairmen

Expense Budget

This is an estimate of the expenses necessary to operate the business in the budget period.

It represents all expenditure in a manufacturing enterprise, other than "direct materials" and "direct labor," and in a retail or wholesale merchandising enterprise all expense except "merchandise purchased for sale."

The first essential to be considered in controlling expense is placing responsibility for the spending of money or the incurring of expense in each department of the business.

Expense should always be based on necessity. It should be dictated by the desire to serve and benefit the business. The principal benefit to be derived from budgeting expense is that the need for expense is carefully considered before commitments are made for it.

In the ordinary manufacturing establishments expense may be classified by elements and by functions, responsibilities, activities and departments, i.e.:

1. *Manufacturing Expenses.*
 - 1a. *Salaries.*
 - 1b. *Indirect Labor.*
 - 1c. *Supplies.*
 - 1d. *Maintenance.*
2. *Power and Light.*
3. *Fixed Charges.*
4. *Selling.*
5. *Advertising.*
6. *Administrative.*

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The production, maintenance and auxiliary departments should furnish estimates of the indirect labor that will be required to carry through the planned manufacturing schedule. These estimates should be prepared in detail. They should show the number of men employed and the amount of wages paid in each indirect-labor classification in the plant. The estimate presented should be checked carefully by the accounting department and the management before it is accepted as a part of the budget. When the labor estimates have been reviewed and approved, the total of the direct-labor estimate and the indirect-labor estimate constitutes the plant pay roll. This must be considered as due and payable in the month or period in which it accrues and treated accordingly in the cash budget.

The classification of expense and the accounts pertaining thereto will depend upon the peculiar needs of the business. Trade and industrial associations are making excellent progress towards the standardization of accounting methods. Particular attention has been directed towards the establishment of classification of expense accounts to meet the peculiar needs of particular industries.

On the basis provided in various industries by uniform accounting methods, competitors are exchanging to mutual advantage statistical data on their operating results, such as turnover of invested capital, gross profits according to lines of merchandise, net profits, and the ratios of the various elements of expense to total volume of business. In this way, each competitor gains an outside measuring stick on his own efficiency. No one's private figures are revealed. A company desiring to participate in the exchange of information supplies some central clearing house with the figures required; then the clearing house, keeping the figures and the names of the individual companies confidential, compiles the data in percentage form for distribution. *With the accounting uniform, or standard*, each company thinks and talks in the same terms, and understands them in the same way, as the other companies.

Ernst & Ernst have prepared standard accounting and cost methods for many of the most progressive national trade and industrial associations, and for a number of local wholesale and retail lumber and building supplies associations.

The classifications of expense have been designed to establish standard bases for distribution of expense. These classifications recognize each function of the business and provide for account names or nomenclature which permit of no misinterpretation.

The requirements of the retail trade for classification of expense and standardization of method have been very ably handled by the Controllers' Congress of the National Retail Dry Goods Association. This association recognizes fourteen natural divisions of expense:

1. *Payroll.*
2. *Rentals.*
3. *Advertising.*
4. *Taxes.*
5. *Interest.*
6. *Supplies.*
7. *Service Purchased.*

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8. *Unclassified.*
9. *Travelling.*
10. *Communication.*
11. *Repairs.*
12. *Insurance.*
13. *Depreciation.*
14. *Professional Services.*

The foregoing divisions apply in whole, or in part, to the general divisions of expense under five functional group classifications:

1. *Administrative.*
2. *Occupancy.*
3. *Publicity.*
4. *Buying.*
5. *Selling.*

The needs of each individual store will influence the number of departments and the sub-classifications of the expense accounts which should be used.

The expense of a wholesale merchandising business may be generally classified under four divisions:

1. *Management and General Expense.*
2. *Occupancy Expense.*
3. *Merchandising and Selling Expense.*
4. *Delivery.*

Here again it is necessary to classify expense according to departments, and to provide means for determining the relative expense in connection with warehouse shipments, direct mill shipments and other services rendered.

There is a minimum of expense necessary in conducting a business, regardless of volume of production or sales. This should be a known quantity. Increasing volume of business calls for increase in expense. But beyond a certain point the expense does not increase in the same progressive ratio as the sales. Then later, another point is reached, which, to exceed, requires, for a time, the application of a larger proportion of expense. *The art of Expense Control reaches its highest state of effectiveness when management has determined upon a reliable measure for gauging the amount of expense necessary for operating a business under varying degrees of activity in production and sales.*

Each executive, or head of department, is required under the budget plan to submit his estimate of the expense necessary for his activities, in sufficient detail to make possible an analysis of the cost of all the elements of his expense.

The salary and wage committee should see to it that the amounts estimated in the budget are conformed to, and that approvals for his increases, beyond budget estimates, be made only where the circumstances justify such increases.

In many manufacturing plants operating under the budget plant, it is customary to adjust the indirect-labor estimate in advance, from week to week, in accordance with the planned production. Within two days after the close of each week, the supervisors and foremen re-

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ceive their statements of the actual indirect pay roll of their departments. These statements show the increases and decreases as compared with the budget. This plan can, in many businesses, be extended to include a number of the office departments.

In the preparation of the expense budget it is customary to schedule separately and by departments each class of expense. For example, under administrative salaries would be scheduled all of the salaries in this classification including general executive, accounting, general office, secretarial, purchasing, traffic, works management, etc.

A separate schedule of fixed charges should be prepared for the budget period showing the maturing obligations represented by federal, state and local taxes, insurance of all kinds, interest on bonds, preferred stock and loans, sinking funds, etc. These should be tabulated according to the dates when due and payable.

Plant Addition and Plant Change Budget

The budget estimate for plant additions and plant changes involving the building or purchase of new buildings, equipment, furniture and fixtures, etc., can, and should, be made in very definite form and usually far in advance of the time when funds will be required for this purpose.

In connection with this budget element it is necessary to give careful consideration to the funds available for the purpose, and particularly to what extent borrowing or financing may be needed to fulfill the programme. It is also necessary to consider the profit return from the added investment, the effect of interest on investment, additional maintenance, depreciation, insurance, taxes and other expenses that are influenced by enlarged investments in plant.

Too frequently, and without necessity, plant extensions are made and current assets converted into permanent assets. This happens in concerns which lack information on the possibilities for greater production through a more intensive use of existing equipment.

EXHIBIT "C"

Appropriations for Plant Additions and Changes

No.	Date Author- ized	For	Amount Appro- priated	Amount Expended to Date	Balance	Estimated Cost to Complete
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Should additional facilities be required the budget should give detailed description of property to be acquired, the cost, and the time when payments must be made against the budget.

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The budget, when finally approved by the management, will consist of a statement of authorized appropriations identifying the various objects and expenditures of the business.

Each authorization for appropriation should be identified by a symbol or number. This gives the means for allocating all of the charges applying thereto. Actual costs should be compared with the estimate as prepared by engineers or others.

From month to month the management should be furnished with a statement (Exhibit "C") showing the amount of money actually expended, the commitments made against each appropriation, the estimated cost to complete, and the balance remaining on the appropriation.

Cash Budget

The cash budget, for convenience and clarity, should be presented in two sections. The first section covers the cash proceeds and the cash disbursements pertaining to the ordinary operations of the business. The second section is the general cash budget which gives effect to the cash balances and financing.

Exhibit "D" illustrates the first section. It is designed to show the increase or decrease in cash as a result of operations from month to month.

The method of arriving at the cash proceeds from sales and other income is illustrated in Exhibit "A." It shows the total to be received to apply against the cash cost of production and the cash cost of expense in determining the increase or decrease in cash as a result of operations for the month.

Increases made to cash from month to month as a result of operations indicate that the returns from sales are in excess of the cash required for material, direct labor, and expense. They do not indicate the amount of profit realized, nor does a decrease in cash, as a result of operations in any month, indicate an operating loss for that month. Decreases in cash usually indicate that inventory values are being added to, due to an excess of production over the return from sales. The process of building up inventories in anticipation of, and in excess of, current sales always results in a decrease in cash from operations.

Decreases in cash from operations, under normal production conditions, must necessarily be compensated for by a corresponding increase in inventories. Where the volume of production is sub-normal then there is a loss due to unabsorbed burden.

In connection with the inventory, it is necessary to consider to what extent the actual expense incurred applies as a proper addition.

Modern accounting practise prescribes the use of predetermined burden rates predicated upon the basis of normal plant operation. Conversion costs applied as additions to inventories of work in process or finished stock are computed accordingly. Any outlay for expense supplies, indirect labor and general plant expense in excess of the amount absorbed at the predetermined rates must be treated as a loss, and be deducted as such from the computed gross profits of the month in which such loss occurs.

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EXHIBIT "D"

Cash Budget—Operations

YEAR 1929

	January	February		March Etc.
		Month	Cumulative	
Cash Proceeds from Sales	\$53,055.00	\$57,967.50	\$111,022.50	
Cash Proceeds from Other Income	4,000.00	2,200.00	6,200.00	
TOTAL	\$57,055.00	\$60,167.50	\$117,222.50	
Cash Cost Production (Ma- terial & Direct Labor)	72,420.30	66,430.90	138,851.20	
Cash Cost of Expense.....	37,420.60	34,870.20	72,290.80	
TOTAL	\$109,840.90	\$101,301.10	\$211.142.00	
Increase or Decrease from Operations*	52,785.90	41,133.60	93,919.50	
PRIME COST OF PRO- DUCTION				
Direct Materials	60,403.30			
Direct Labor	12,017.00			
	72,420.30			
EXPENSE				
<i>Manufacturing</i>				
Indirect Labor	9,840.20			
Supplies	3,780.60			
Repairs	1,200.00			
	14,820.80			
Fixed Charges (Includ- ing Federal Tax).....	4,245.00			
Administrative	7,890.30			
Selling	10,464.50			
	\$22,599.80			
TOTAL EXPENSE (CASH COST)	\$37,420.00			

*Black figures indicate "decrease."

The second section of the cash budget, referred to as the general cash budget, is illustrated in Exhibit "E." This budget gives effect to the cash at the beginning of the month, the net increase or decrease thereto as a result of operations, any cash outlay for plant additions and plant changes, any liquidation of loans, new loans made, and finally indicates the cash balance and the outstanding bank loans at the end of the month.

BUDGET CONTROL

EXHIBIT "E" General Cash Budget YEAR 1929

	January	February		March, Etc.
		Month	Cumulative	
Cash beginning of Month.....	\$161,220.12	\$91,434.22		
Increase or Decrease from Operations*	52,785.90	41,133.60	\$93,919.50	
TOTAL	\$108,434.22	\$50,300.62		
Plant Additions & Changes.....	17,000.00	12,000.00	29,000.00	
	91,434.22	38,300.62		
Bank Loans—made—paid.....	-0-	100,000.00	100,000.00	
Other Financing	-0-	-0-	-0-	
Dividends & Sinking Funds.....	-0-	-0-	-0-	
CASH AT END OF MONTH	91,434.22	138,300.62		
Outstanding Bank Loans.....			100,000.00	
Total Cash Receipts.....	57,055.00	160,167.50		
Total Cash Disbursements.....	126,840.90	113,301.10		

*Black figures indicate "decrease."

The working out in detail of the general cash budget will serve to indicate, far in advance, the amount of borrowing or financing that will be necessary. It indicates the time that such funds will be needed, and in what amounts; and the extent of their liquidation.

The Master Budget

The master budget is the medium or form in which are collected all of the elements or parts of the budget, which go to make a comprehensive whole. For this purpose it has long been Ernst & Ernst practise to use a standard form. Example of this is attached—Budget Control—Exhibit "F".

This form may be used for displaying and comparing all factors which enter into the budget as they are reflected in the several elementary calculations. The extent to which the form is used in displaying such detail will depend wholly upon the requirements of the budgetor and his desire for having detail on it.

The form is adapted to displaying the projected monthly balance sheet. It provides for a comparison of the budget with the actual, the gain or loss from month to month; the cumulative budget with the actual, and the cumulative gain or loss in connection with each item displayed thereon.

In setting up this form, the blank headings are filled in with the names of the assets, liabilities, income and expense accounts, as many sheets as necessary being devoted to each. The budget figures are entered in the *Budget* column; then from month to month the *Actual* is entered, and the month's and the cumulative gains and losses are computed.

COST AND MANAGEMENT

To be most effective, the budget must be simple and accurate. It must be intelligently and honestly prepared and have the entire confidence of the organization which it serves.

Using the Budget Effectively

When all of the work outlined herein is finished and the *Master Budget* is set up, the work has just begun.

To derive the greatest benefits from the work, and to exercise the degree of control that a budget makes available to management, it is essential that a committee be created for making review of it from month to month in comparison with the figures on actual operations, to the end that the necessary steps are taken and instructions issued to preserve and maintain a proper co-ordination of all activities. Thus, and thus only, may the maximum service be rendered and adequate profits realized.

Such adjustments in the budget as are deemed advisable in the course of business are readily made and are authorized from time to time by the management.

Opening of a new store, branch or department, increases in advertising and selling expense, increases in salaries, and so on, which were not provided for in the budget, but later found desirable and approved, would require adjustments in the budget to cover.

The research or engineering department of a manufacturing concern develops an important change in the product, not provided for in the budget. After due consideration, it is decided to make the change effective in three months. A special appropriation is made which is usually classified as a part of the plant addition and plant change budget. When the change has been accomplished, consideration is then given to the treatment of the expenditures against the appropriation. The management decides what portion is to be capitalized as a permanent asset subject to ordinary depreciation and what portion represents an amount that should be amortized over a definite quantity of production or over a definite length of time. Or the decision may be that the total amount, as an extraordinary item, should be absorbed at the end of the period for which the incurrence of the expenditures was originally determined upon.

Progressive business recognizes that the budget is simply a method for recording the functional operations of a business as they should logically come to pass in a given future period under given circumstances. It exhibits the standards with which from day to day and month to month the successive steps in actual accomplishment can be measured. In the process of searching for facts, the standards are established and a science is developed. These standards provide the basis and the guides. Standards improved represent progress. As new ones are set, based on more research and developed facts, the old ones are discarded in a never ending process to attain the ideal in efficiency and accomplishment.

A budget is the mapped plan for the future progress of a business. It is as necessary to the business man as the navigator's chart is to the mariner. It deserves, and should have, the careful consideration of every business man who desires a better control over the future of his business.

BUDGET CONTROL

EXHIBIT "F"

Year.....

Budget of.....

PERIOD	Budget	Actual	%	Budget	Actual	%
JANUARY						
Gain or Loss						
FEBRUARY						
To Date						
Gain or Loss						
Gain or Loss Cumulative						
MARCH						
To Date						
Gain or Loss						
Gain or Loss Cumulative						
NOVEMBER						
To Date						
Gain or Loss						
Gain or Loss Cumulative						
DECEMBER						
To Date						
Gain or Loss						
Gain or Loss Cumulative						

Budget	Actual	%	Budget	Actual	%	PERIOD
						JANUARY
						Gain or Loss
						FEBRUARY
						To Date
						Gain or Loss
						Gain or Loss Cumulative
						MARCH
						To Date
						Gain or Loss
						Gain or Loss Cumulative
						NOVEMBER
						To Date
						Gain or Loss
						Gain or Loss Cumulative
						DECEMBER
						To Date
						Gain or Loss
						Gain or Loss Cumulative

COST AND MANAGEMENT

By no other means may management so quickly come to a realization that there are deficiencies in its form of organization or personnel than through an earnest attempt to establish and operate a budget, because successful budgeting depends so much upon good organization. Budgeting brings to light whether management has recognized what the functions of its business are, and whether the responsibilities for performing the functions are vested in competent personnel. We must be logical in budgeting.

Possibilities of the Budget

The following paragraphs are quoted from *Budgeting for Business Control*, published by the Fabricated Production Department, Chamber of Commerce of the United States:

"Budgetary control may mean much or little. It may mean merely the multiplication of useless forms the only effect of which is to hamper and further impede production and sales. On the other hand, budgetary control may mean the wise conduct of business, the sub-ordination of pleasant dreams to actualities. It is not the forms for budgetary control that matter; it is questionable whether many additional forms are necessary or desirable. It is the spirit behind the budget that is important, for a budget, to amount to anything, must be predicated at least upon a knowledge of what a plant can do, of what are reasonable sales expectancies, of what financial resources are required and available for the sales and production programmes.

"At the very outset it should be emphasized that the budget cannot, nor is it intended, to take the place of able and skillful executives. The purpose of the budget is to reconcile and co-ordinate the effects of these executives, to draw from them definite promises of accomplishment from which to set definite goals and to check actual performances in the terms of these goals, and we may safely go on the assumption that, if we draw from the executives definite promises of what they expect to do, 'it follows as the day the night,' they will leave no stone unturned to make good on these promises."

PERSONALS

J. S. Dull, formerly of Gregory Tire & Rubber Co., Ltd., Port Coquitlam, B.C., is now with Canadian Westinghouse Co., Ltd., in Vancouver.

O. H. Menzel, formerly with Eclipse Oil Co., Ltd., Hamilton, and W. Furneaux, formerly with Firestone Tire & Rubber Co. of Canada, Ltd., Hamilton, are now with Polymet of Canada Ltd., in Hamilton.

C. E. Whitten, formerly of Montreal, is now secretary-treasurer of Dominion Woollens and Worsteds, Ltd., in Toronto, and his membership is transferred to that city.

J. E. Goudey, formerly of Canadian Cottons, Ltd., in Hamilton, is now employed with Colgate-Palmolive-Peet Co., Ltd., Toronto, and his membership is transferred from Hamilton to Toronto.

M. P. H. Menlove, formerly with Parkhill Bedding Co., Ltd., Winnipeg, is now with Canadian Goodrich Co., Ltd., in Winnipeg.

Signification of the Rationalization Movement in Industry

By PROF. J. F. DAY,
McGill University, Montreal.

(Before Montreal Chapter, April 17, 1931.)

THE Rationalization movement in industry is one of profound importance. Its significance is perhaps not fully appreciated and its method directly concerns the profession of cost accountants, without whose aid the movement would be impossible. Accountancy used to be a mere record of past events; it has ceased to be merely that, and has developed into an applied science designed to assist business men in the determination of future policy. The essence of rationalization is that industry should no longer be left to the hazard of free and uncoordinated individual enterprise, but that a reasonable control of the whole of an industry should be established in the interests of all: producers, workers, and consumers. Rationalization concerns itself primarily not with self-contained establishments, but with an industry as a whole.

The movement owes its progress to various causes, of which the most fundamental is the growth in the size of the unit concern. In many of our most important industries to-day the business unit has no chance of success unless it is large, which involves the sinking of very considerable sums of money in fixed capital—machinery and plant. Now in earlier days when the unit concern was still comparatively small, we relied for the necessary adjustment of supply and demand upon competition. If production increased too rapidly, prices fell, profits fell, and sooner or later the weaker competitors were driven out, thus reducing output and enabling prices and profits to recover. This process of adjustment brought even then its distresses, but was regarded as beneficial in so far as it led to a periodical weeding out of the less efficient concerns. If we still rely on this process to-day, as in the main we do, it involves not the squeezing out of a few small firms now and again, but the collapse after a long and bitter struggle of huge concerns involving hundreds of thousands of dollars worth of capital and thousands of workers. The process is too expensive. It is, therefore, essential that some other way of checking over-production should be sought. For a time the solution was sought by astute amalgamations of the stronger concerns and a deliberate economic war against the weaker, leading to monopoly control. This method, however, was not satisfactory; it stirred up popular resentment and led to legislation against combines. Moreover, the combines themselves usually undermined their own position by a short-sighted policy of undue restriction of production and excessive profits resulting, when it did not kill demand, in inducing competition from outsiders and in the breaking away of members of the combine who resented the restrictions on output. It was, therefore, becoming evident that some new method was necessary, some method which would not encounter the opposition of the law nor suffer from the economic

COST AND MANAGEMENT

instability of the trust, but yet would prevent the anarchical conditions of haphazard cut-throat competition.

Post-War Conditions

The working out of the new method was greatly accelerated by post-war conditions. In many countries, and in Germany especially, industry was in great difficulties after the collapse of the 1920 boom. Prices had fallen greatly and profits had vanished, and the old-fashioned method of reducing costs of production by cutting wages was too dangerous in the face of a working class population thoroughly unsettled by the experience of the war years and the unsound promises held out to them. If wages could not be reduced, the only alternative to a collapse of industry was to reduce somehow the other costs of production. Hence the double necessity: to reduce the losses due to unrestrained competition and to lower the costs of production by cutting out all possible waste. It soon became apparent that whatever might be accomplished by economies and better management of individual concerns would fall far short of what the situation demanded and that the only method was to deal with the industry as a whole. The first step was to put an end to that destructive competition which leads to disastrous price cutting and to establish by mutual agreement a common production and sales policy. The usual method was to agree on a restricted total production and allot a quota to each firm. Indeed it was this rationing of production which first gave the name to the movement and only afterwards did rationing develop into rationalizing. So far this was the ordinary method of a kartel, but the output was regulated with sufficient elasticity so that fluctuations of demand could be met without delay and selling price levels kept stable at a rate which would cover the costs of production for all and yield a reasonable profit.

The distinguishing feature of rationalization, however, is that within this system of regulation a comprehensive effort to lower costs of production was aimed at in every possible way. Production was concentrated in the most suitable works which were operated as near to full time capacity as possible; if necessary to attain this, obsolete and less efficient works were bought up and closed down. The most complete specialization was attained by allocating to particular works the products for which they are most suitable; by similar arrangements all unnecessary transport was avoided. Further economies were possible by bulk purchases of materials and the concentration of the sales organization, including advertising. At the same time great progress has been made in the standardization of products and the simplification of practice. In the United States, for example, it has been possible to reduce 17,000 various types of pipes and fittings to 610 without any disadvantage to anybody, and this standardization permits the simplification of mechanical equipment and its adaptation to cheaper mass production. Lastly, the whole industry should pool its technical, scientific, and statistical, research work.

Reducing the Cost of Production

By all these and other means the costs of production can be very considerably lowered, but the cheaper production is not to result in exorbitant profits. The aim is always to increase consumption by

RATIONALIZATION MOVEMENT IN INDUSTRY

cheaper production and lower prices, so controlling the progress of the industry, however, that the various factors of production: capital, labor and business ability, will all earn a reasonable reward. The real gain is in stability and security. There are, no doubt, captains of industry to-day who still prefer the free-for-all fight of unrestrained competition; they regard themselves as able enough and strong enough to outlast all comers and hope to build their fortunes on the wreck and ruin of others, regardless of the social waste and misery involved. Ruthless and profitless competition while the struggle is on and, to recoup themselves, ruthless exploitation of the consumer when they have conquered, seems to be their preference, but it is doubtful whether the best leaders of industry do prefer this and it is even more doubtful whether society will much longer tolerate such wasteful anarchy. The big industries, at least, like the iron and steel industry, have decided that their stakes and commitments are too huge to gamble with and they seek a means of rational control, sometimes on an international scale. How many of our basically sound and promising enterprises and industries are we to see dragged into profitless despondency and stagnation before we have sufficient intelligence to recognize the remedy, before we have sufficient foresight and magnanimity to prefer the permanent greater gain of all to the evanescent profits that an astute and obstinate selfishness may at times be able to snatch for a few?

Like most things worth doing, rationalization is neither simple to introduce nor easy to maintain, nor does it follow that all industries would benefit from the process. I could dwell, if time permitted, on its difficulties and its dangers, some of them obvious and some obscure, but rather let me conclude with this suggestion. The rationalization of industry may conclude the long controversy between the individualists and the socialists. Already both sides have receded greatly from their original extreme positions. The more thoughtful socialists to-day have abandoned the demand for State ownership of all the means of production; all they are asking for is a general control of economic effort in the common interest, some kind of effective social control over the economic system as a whole, and the means by which this control is to be attained is an open question for them. The wiser individualists are not blind to the insecurity and waste of unrestrained competition nor to the recurrent collapse of justifiable enterprises caused by a sheep-like rush into a promising field once the way has been shown. As the World Economic Conference at Geneva in 1927 reported: "A judicious and constant application of rationalization is calculated to secure to the various classes of producers higher and steadier remuneration to be equitably distributed amongst them, to the consumer lower prices and goods more carefully adapted to general requirements, and to the community greater stability and a higher standard in the conditions of life." Can anyone be opposed to this?

A bigamist is a man who makes the same mistake twice.

He was before the court for stealing a watch and would not give his name.

"Enter it," said the judge, "as Procrastination—thief of time."

COST AND MANAGEMENT

Chapter Programs

Season 1931-32

MONTREAL

1931

- Oct. 23—Opening dinner. "Financial Statements—Their Use and Limitations," by H. E. Guilfoyle, F.C.A., Clarkson, Gordon, Dilworth, Guilfoyle & Nash, Chartered Accountants; President, Canadian Society of Cost Accountants & Industrial Engineers.
- Nov. 6—"The Punched Hole Method," by S. P. Mapes, General Manager, Recording & Statistical Corporation Limited.
- Nov. 20—"Workmen's Compensation Accident Fund Administration and Accounting," by O. E. Sharpe, Commissioner, Workmen's Compensation Commission, Province of Quebec.
- Dec. 3—Open forum. Senior class.

1932

- Jan. 21—"The Montreal Tramways Contract," by A. Duperron, Chief Engineer, Montreal Tramways Commission.
- Feb. 4—"Fire and Use and Occupancy Insurance. What Is It?" by A. J. Mylrea, Vice-President, Reed, Shaw & McNaught Limited.
- Feb. 18—"Industrial Research," by S. Farquharson, A.M.E.I.C., Farquharson & Company.
- Mar. 4—Open forum. Junior class.
- Mar. 18—"Hotel Costs and Management," by Alderic Raymond, Vice-President, Windsor Hotel.
- Apr. 8—Closing dinner. Speaker to be announced.

TORONTO

1931

- Oct. 2—"Budgetary Control," by Mr. E. S. LaRose, Assistant Comptroller, Bausch & Lomb Optical Co., Rochester, N.Y.
- Oct. 26—"Statistical Data and Reports For Management Control," by Mr. E. D. MacPhee, York Knitting Mills, Ltd.
- Nov. 23—"Labour Control," by Mr. B. W. Lang, Goodyear Tire & Rubber Co., Ltd.; Mr. R. Presgrave, York Knitting Mills, Ltd.; Mr. W. M. Lane, Lever Brothers, Ltd.
- Dec. 14—"Control of Capital Expenditures and Maintenance Expenses," by Mr. Norman Pice, Steel Company of Canada, Ltd., Hamilton, Ontario.

1932

- Jan. 18—"Control of Administrative, Selling and Distribution Expenses." Speaker to be announced later.
- Feb. 15—"Insurance," by Mr. E. L. McLean, President, E. L. McLean, Limited.
- Mar. 14—"Construction and Interpretation of Financial Statements," by Major A. E. Nash, Clarkson, Gordon, Dilworth, Guilfoyle & Nash.
- Apr. 11—Annual dinner. Speaker to be announced later.

CHAPTER PROGRAMS

1931

HAMILTON

- Oct. 15—Opening dinner meeting. "Interpretation of Business Statements," by H. E. Guilfoyle, Clarkson, Gordon, Dilworth, Guilfoyle & Nash, Toronto, Ontario.
- Oct. 29—"Inventory Control," by R. Dawson, The Hoover Co., Ltd., Hamilton, Ontario.
- Nov. 12—"The Thirteen Month Calendar," by J. W. Spence, The Canadian Kodak Co., Toronto, Ontario.
- Nov. 26—"Wage Incentives," by G. W. Rice, Vice-President, The Bedaux Co., Ltd., New York.
- Dec. 10—"Costs That Enter Into a Telephone Bill," by R. C. Douglas, The Bell Telephone Co., Hamilton, Ontario.

1932

- Jan. 7—Annual smoker.
- Jan. 21—"Cost Studies On Changes in Operations," by E. W. Carpenter, De Forest Crosley Corporation, Toronto, Ont.
- Feb. 4—Social evening.
- Feb. 18—Annual meeting. Members' problems.
- Mar. 3—"The Planning and Building of a Modern Factory," by W. Bruce Riddell, A.R.I.B.A., Hamilton Ontario.
- Mar. 17—"The McMillan Report and The World's Ailments," by Professor Gilbert Jackson, University of Toronto.
- Apr. 7—Annual dinner. "Sales Statistics, The First Step in Budgetary Control," by Martin L. Pierce, The Hoover Co., North Canton, Ohio.

1931

CENTRAL ONTARIO

- Oct. 19—Guelph. "Cost Accounting," by H. E. Guilfoyle, F.C.A., President, The Canadian Society of Cost Accountants & Industrial Engineers.
- Nov. 12—Galt. "New Products—Their Development and Cost Control," by H. M. Hetherington, Viceroy Mfg. Co., Ltd., Toronto.
- Dec. 10—Kitchener. "Wage Incentives By Groups," by R. Presgrave, York Knitting Mills Co., Ltd., Toronto.

1932

- Jan. 20—Galt. "Inventory Control," by R. Dawson, The Hoover Co., Ltd., Hamilton, Ontario.
- Feb. 17—Kitchener. "Practical Application of the Budget," by A. J. Mouncey, Norton Co. of Canada, Ltd., Hamilton.
- Mar. 16—Guelph. "The Use of Machines in the Modern Business Office," by J. M. McKee, International Business Machines Co., Ltd., Toronto.
- Apr. 14—Preston. "Preparing to Install a Cost System," by W. T. Brickenden, Thorne, Mulholland, Howson & McPherson, Toronto.

WINNIPEG

Detailed program not yet available.

VANCOUVER

Detailed program not yet available.

CHAPTER NOTES

MONTREAL

R. Schurman, C.A., Secretary

About sixty members and friends of the Society motored to Beauharnois on Saturday, October 3rd, on an inspection trip of this interesting power development. This was the first "gathering of the clan" this season, and if one can judge by the success of our first, each succeeding event on our calendar should be something to look forward to. The members were guests of the Beauharnois Power Corporation for luncheon, and afterwards Mr. Rielle Thompson and Mr. Skelton of the Beauharnois Corporation accompanied us on a trip from the intake on Lake St. Francis at Valleyfield, to the outlet below the power house at Lake St. Louis, explaining the different phases of development as we went along the enormous ditch. 2,500 men are employed day and night in this gigantic undertaking, and Beauharnois Camp has a completely equipped hospital, warehouses, a 20,000 barrel fuel oil tank, storage bins, etc. Our excursion will long be remembered as interesting, instructive and entertaining.

Over two hundred members and friends attended the Opening Dinner of Montreal Chapter, held in the Rose Room of the Windsor Hotel, on Friday, October 23rd. Our president, Mr. H. E. Guilfoyle, F.C.A., addressed the meeting on "Financial Statements—Their Use and Limitations". The address was listened to with marked attention. Mr. Guilfoyle emphasized the need of good costing more now than at any other time, and stated that other Provinces of the Dominion had under consideration establishment of Chapter activities. Mr. R. W. Louthood, A.C.I.S., of the Beauharnois Power Corporation Limited, presided, and Mr. L. A. Peto, vice-president and comptroller of the Canadian Car & Foundry Company, Limited, and vice-president of our Dominion Board, moved a vote of thanks:

The head table guests included many individuals prominent in business and professional life, among those present being: Lieut-Col. Robert Starke, representing the Montreal Board of Trade; Allen Mitchell, president of the Quebec Division of the Canadian Manufacturers' Association; Prof. Lucien Favreau, of the School of Higher Commercial Studies; R. A. C. Henry, vice-president and general manager of the Beauharnois Power Corporation Limited; J. C. Thivierge, of the Banque Canadienne Nationale; Prof. William Caldwell, McGill University; A. R. B. Hearn, manager of the Imperial Bank of Canada; Prof. R. R. Thompson, McGill University; L. P. Morin, Corporation of Public Accountants of Quebec; B. A. Dugal, superintendent of insurance of the Province of Quebec; J. L. Carson, manager of the Bank of Toronto; Prof. Smith, School of Higher Commercial Studies; W. H. Miner, president of the Canadian Manufacturers' Association; Prof. R. M. Sugars, McGill University; L. A. Peto, vice-president of the Canadian Car & Foundry Company,

CHAPTER NOTES

Limited; N. W. Berkinshaw, manager of the Bank of Nova Scotia; P. F. McCaffrey, inspector of income tax; A. G. Yon, director of Montreal Board of Trade; A. H. Schneider, president of Montreal branch of the General Accountants' Association; Lorenzo Belanger, past president of C.S.C.A.; W. A. McKague, general secretary of the C.S.C.A.; W. H. Rowland, assistant inspector of income tax; W. A. Schofield, A. Cartier, G. H. Houston and G. S. Burden. Among the out-of-town members were noted Mr. J. C. Douglas from Smiths Falls, Ontario; N. A. Austin from Granby; J. G. Fortescue from Granby; Mr. J. P. Rolland of St. Jerome.

Mr. Bowden showed considerable originality in locating novel entertainers, and their dancing and musical numbers were much enjoyed. Mr. Peter Miller also greatly contributed to the enjoyment of the evening, by offering a couple of vocal selections, which were enthusiastically received and heartily encored. The head table was very tastefully decorated under the able direction of Mr. Blunt, in a colour scheme of yellow chrysanthemums and purple letters giving the initials of the Society. The dinner was broadcast through the courtesy of Station C.K.A.C.

TORONTO

By G. Alexander Phare.

Toronto Chapter opened its present season with one of the most successful meetings in its history, which took the form of a joint meeting with the Institute of Chartered Accountants of Ontario. The meeting was held in the Royal York Hotel, and a combined committee of the two organizations had done extensive work during the preceding month, with the result that there were some 500 accountants—chartered and industrial—industreal engineers, and guests present. The speaker of the evening was Mr. E. S. LaRose, assistant comptroller of the Bausch and Lomb Optical Company, of Rochester, N.Y., already known to our Society, and prominent in the affairs of the National Association. Mr. LaRose addressed the meeting on Budgetary Control, a subject on which he is a recognized authority of very wide repute. He was introduced by Mr. H. E. Guilfoyle, past president of the Institute of Chartered Accountants, and president of our own Society, who expressed the opinion that "business without a budget was like a ship without a rudder, getting nowhere with alarming rapidity".

The workings and effects of budgetary control in the Bausch and Lomb headquarters were dealt with in great detail, and illustrated with slides, by the speaker. His speech was an essentially practical one, dealing with actual workings and actual applications, making it very much more valuable than a purely academic discussion. By marshalling exhaustive data on sales, cost of production, cost, community purchasing power, and other aspects of the company's operations; by co-ordinating these and applying the conclusions, his department is able to forecast twelve months ahead just what business will be, with only a fractional margin of error. And on this forecast all the activities and efforts of his company are based.

COST AND MANAGEMENT

A note of confident optimism pervaded his entire remarks on the future possibilities of business. Going back over the business structure for over a century, Mr. LaRose said that business of August of this year had reached its lowest point since 1770. His interpretation of present conditions was that there would be an improvement increasing with the New Year, and that by 1933 trade and commerce would be at normal levels. Business for August last was 28% below normality. He urged very strongly the pressing need in modern industry for the adoption of similar plans of budgetary control to eliminate "stabbing in the dark", and to stabilize both individual enterprise and industry as a whole. In listening to the very exhaustive series of informational factors utilized by Mr. LaRose in his system, and the numerous sources from which such figures were assembled, one could not but regret that we in Canada have no similar system for the collection of statistics by local centres, and available for use by any industry, as those outlined by him.

The meeting was also addressed briefly by Mr. F. J. Stiff, president of the Institute of Chartered Accountants, and by Mr. K. A. Mapp, chairman of Toronto Chapter. The guests included many of the best known names in Toronto business affairs.

The second meeting of the season was held on October 26th, also in the Royal York Hotel. The speaker was Mr. E. D. MacPhee, of the York Knitting Mills, who spoke on "Statistical Data and Reports for Management Control". A rather valuable feature of his address was a very complete printed summary of his principal points, furnished to each member, which helped to make his speech the clearer, and therefore the more valuable. He commented on the vast increase in the number of reports now being compiled in comparison with a few years ago, and touched on the type of business—not altogether extinct—where the periodical Balance Sheet and Operating Statement formed almost the only written history, the remainder being in the head of one or more of the Executive Officers. This was due, he said, to the definite advancement of the position of foreman from a superior workman to a working executive, and also to the increasing number of college trained men in plant positions. The two outstanding questions of what statistical data were vitally essential, and the pitfalls in their preparation and presentation, were thoroughly and lucidly dealt with.

The program for Toronto Chapter this year appears elsewhere, and Mr. Lane and his committee are to be congratulated on the practical list of subjects decided on. A new system of stimulating and recording attendance is now in use, sponsored by Mr. J. W. Spence, in charge of the Membership Committee. Due to concerted efforts, some nine new members have been added to Toronto Chapter. Judging by indications so far, we have no qualms about the entire success of the 1931-32 season.

HAMILTON

R. Dawson, Secretary-Treasurer.

The Hamilton Chapter activities are away to a good start and the first two meetings have proved highly successful.

CHAPTER NOTES

Mr. H. E. Guilfoyle, F.C.A., Dominion president of the Society, was the guest speaker at the opening dinner meeting, held at the Royal Connaught Hotel, on October 15th, and his address on "Interpretation of Business Statements" was adjudged to be one of the best ever given before the Hamilton Chapter. Mr. Guilfoyle treated his subject in a most skilful manner and his talk was thoroughly enjoyed by the large gathering. Mr. Guilfoyle answered numerous questions at the close of his address, and was tendered a very hearty vote of thanks. A. J. Mouncey, chairman of the Hamilton Chapter, occupied the chair, and among the many guests were Controller Lawrence representing the City of Hamilton; R. C. Douglas, president of the Chamber of Commerce; Kris. A. Mapp, F.C.A., chairman of the Toronto Chapter; W. A. McKague, general secretary of the Society and G. Earnshaw, chairman of Central Ontario Chapter.

The second meeting, held on October 29th, was another very successful meeting although of a different type. On this occasion R. Dawson, secretary of the local chapter, addressed a large gathering of members at the Chamber of Commerce rooms on the subject "Inventory Control". This topic proved to be highly interesting and resulted in a most complete and lively discussion at the close. Certainly the discussion was one of the best ever heard at a local chapter meeting and the speaker was cordially thanked for his effort.

The next meeting will be held on November 12th, when Mr. J. W. Spence of the Canadian Kodak Co., Toronto, will speak on "The Thirteen Month Calendar", and another large attendance is predicted.

CENTRAL ONTARIO

Carl R. Dorschell, Secretary-Treasurer

The opening meeting of Central Ontario Chapter was held in the rooms of the Garrison Club, at the Guelph Armouries, on Monday evening, October 19th. This was a dinner meeting and thirty-one were present to enjoy a splendid chicken dinner. The attendance at the general meeting which started at 8 o'clock was augmented by about twenty prominent Guelph business men who were invited to the meeting by Mr. Earnshaw. This brought our attendance up to fifty-one, which is a record for our chapter and full credit must be given to Mr. Earnshaw and Mr. Griggs of the Guelph Carpet and Worsted Spinning Mills. These two gentlemen have an enviable reputation as hosts, and the Royal City's reputation for hospitality is safe in their hands.

The speaker of the evening was Mr. H. E. Guilfoyle, F.C.A., of the firm of Clarkson, Gordon, Dilworth, Guilfoyle & Nash, of Toronto. Mr. Guilfoyle is the past president of the Ontario Institute of Chartered Accountants and the president of the Canadian Society of Cost Accountants & Industrial Engineers. The subject chosen by the speaker was "Cost Accounting" and rare judgment was shown in the way in which it was handled. The history of the Society since its organization in 1920, its affiliation with the National Association of Cost Accountants of the United States in 1924 was traced through to 1926 when it branched out on its own as a Canadian Society only, and printed its own monthly publication "Cost and Management". Despite

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the severing of connections the two Societies continued their friendly co-operation. In 1930 the name of the Society was changed to include Industrial Engineers as it was felt that the inclusion of industrial men would widen the scope of the Society and that the exchange of views and opinions would be of mutual advantage. The aims and objects of the Society were outlined very clearly and while no new chapters will be opened this year, the president pointed out that there should be an increase in membership despite business conditions, because in times of depression there is a greater need for accurate costs and that the contacts one makes, the interchange of ideas, the giving and hearing of papers, etc., were worth many times over the yearly membership fee.

The speaker told the meeting of his attendance at the International Congress of Accounting held in New York City at which fifteen countries were represented. At this congress thirty-two papers or almost 50% of the papers given were on cost accounting and its affiliated subjects, showing what an important position cost accounting holds in the sphere of accounting. The next World's Congress is to be held in London, England, in all probability, in the year 1933 and the speaker urged that anyone who had the opportunity, should make an effort to attend this Congress.

In times of depression business concerns require accurate costs, control of inventory prices and some system of budget control. Budgets being described as the supercontrol of business; but in order to pave the way for budget control, one must have accurate costs, and a correct analysis of the same. This is where the cost accountant steps into the picture and he should be to an industrial concern, what an actuary is to an insurance company. From past figures and statistics he should prepare his budget. The speaker made reference to Mr. E. S. LaRose of the Bausch and Lomb Optical Company, of Rochester, as a master of budget control. Mr. LaRose has reached such perfection so as to budget sales, costs, overhead and cash in and out. At the conclusion of Mr. Guilfoyle's speech the meeting was thrown open for questions and for forty-five minutes the speaker was kept busy answering queries re the inclusion of interest charges in costs, tie up of cost accounts with the general ledger, dual system, standard costs, and methods of creating interest at meetings and stimulating attendance. In regard to the latter Mr. Carpenter, the secretary of Toronto Chapter, gave a short talk on how he sent out the notices of meetings to Toronto Chapter so as to produce more interest at the meetings. Motions of thanks were tendered the speaker by both the members and guests present following which the meeting adjourned.

Teacher: "I will give you a lesson not to do stupid things. When you go home to-night, Tommy, write for a punishment a hundred times 'I'm a stupid donkey,' and bring the paper to me, signed by your father."

DIRECTORS' MEETING IN MONTREAL

DIRECTORS' MEETING IN MONTREAL

THE mid-year meeting of directors of the Society was held in Montreal on October 23, 1931, attended by the following: L. Belanger, G. T. Bowden, R. W. Louthood, L. A. Peto, and R. R. Thompson, of Montreal, H. E. Guilfoyle and G. H. Houston, of Toronto, directors, and W. A. McKague, general secretary.

The directors first placed on record their deep sense of loss through the death of Mr. G. C. Leroux, vice-president, and instructed the secretary to send a suitable message to Mrs. Leroux and family.

L. A. Peto, of Montreal, was elected a vice-president. Mr. Peto has been an active member of the Society for many years, serving as a director of Montreal Chapter and chairman in 1929-30, and in recent years as a member of the Dominion board. He is vice-president and comptroller of Canadian Car & Foundry Co., Ltd., Montreal.

J. Paul Rolland, of the Rolland Paper Co., Ltd., St. Jerome, Que., was added to the board. Mr. Rolland has been a member of Montreal Chapter for several years.

In addition to other routine business, the board approved some minor changes in the examination regulations, and also arranged for an outline of the subject matter which may be expected by students. For the preparation of this outline, the president has named the following committee: L. Belanger and R. R. Thompson, Montreal; K. A. Mapp and E. W. Carpenter, Toronto; G. E. F. Smith, Hamilton; C. J. Heimrich, Kitchener; E. J. Burleigh, Winnipeg; and H. D. Campbell, Vancouver.

NEW MEMBERS

The following are new members of the Society:

Montreal Chapter

Lefebvre, P. E., The Robert Mitchell Co., Ltd., Montreal.
MacKenzie, G. I., Northern Electric Co., Ltd., Montreal.
MacVicar, C. B., The Robert Mitchell Co., Ltd., Montreal.
Smyth, T. I., David & Frere, Ltd., Montreal.
Thackray, C. C., Dominion Rubber Co., Ltd., Montreal.

Toronto Chapter

Glendinning, W. D., C.A., Riddell, Stead, Graham & Hutchison, Toronto.
Grant, J. A., The M. Langmuir Mfg. Co. of Toronto, Ltd., Toronto.
Hayhurst, G. F., Parker Fountain Pen Co., Ltd., Toronto.
McConnell, C. G., C.A., Deloitte, Plender, Haskins & Sells, Toronto.
Mills, L. J., Henry Barber, Mapp & Mapp, Toronto.
Saunders, W. J., C.A., Deloitte, Plender, Haskins & Sells, Toronto.
Slater, F. U., Jr., The Gendron Mfg. Co., Ltd., Toronto.
Weldon, W. B., Henry Barber, Mapp & Mapp, Toronto.

Vancouver Chapter

Faulkner, F. B., The Granby Consolidated Mining, Smelting & Power Co., Ltd., Anyox, B.C.

COST LITERATURE

RECEIVED IN OCTOBER

PREPARATION for the Coming Industrial Expansion. R. P. Ridges. National Association of Cost Accountants Bulletin, October 1, 1931.

Effective Use of Cost Data. S. L. Angle. National Association of Cost Accountants Bulletin, October 1, 1931.

Departmental Accounts of a Large Store. M. Finlayson, A.C.A. Accountants' Journal, October, 1931.

Departmental Cost Account. T. W. Fazakerley. The Accountant, October 10, 1931.

Decline in Price Levels Brought New Problems to Accountants. R. W. Peden. American Accountant, October, 1931.

Treatment of Earnings in Valuation of Natural Resources. R. M. Fischer. American Accountant, October, 1931.

Advocates Applying Depreciation to Cost of Municipal Services. F. R. Chailquist. American Accountant, October, 1931.

Valuations of the Assets of Public Companies. S. A. Smith (Chartered Surveyor). The Accountant, October 17, 1931.

THE TREND OF PRODUCTION COSTS

THE Dominion Bureau of Statistics index number of commodity prices, with 1926 as the base period, declined from 70.9 in August to 70.0 in September. The main group compare as follows:

	Sept. 1930	Aug. 1931	Sept. 1931
Foods, beverages and tobacco.....	86.7	69.4	67.9
Other consumers' goods.....	85.7	79.9	80.1
All consumers' goods.....	86.1	75.7	75.2
Producers' equipment.....	91.2	89.1	89.6
Building and construction materials.....	86.8	82.1	80.9
Manufacturers' materials.....	72.5	59.7	58.0
All producers' materials.....	75.1	63.8	62.1
All producers' goods.....	76.7	66.3	64.9
All commodities.....	82.1	70.9	70.0

The most important reductions in September were in the following: Canned fruits, vegetables, furs, hides and skins, live stock, meats, poultry, raw cotton, cotton yarn and thread, flax, hemp, jute products, silk fabrics, raw wool, wool cloth, sand, gravel, fertilizers, drugs and pharmaceutical chemicals. The most important advances were in the following: Dried fruits, glass and its products, and petroleum products.

